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RUEKJCS/JOINT STAFF WASHDC PRIORITY
RUEKJCS/SECDEF WASHDC PRIORITY
RUEHVEN/USMISSION USOSCE PRIORITY 2324
RUCNDT/USMISSION USUN NEW YORK PRIORITY 1709
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C O N F I D E N T I A L SECTION 01 OF 03 BISHKEK 000080

SIPDIS

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DEPT FOR SCA/CEN (GEHRENBECK)

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TAGS: [ECON](#) [EFIN](#) [EINV](#) [PREL](#) [KG](#)

SUBJECT: HIPC INITIATIVE VICTIM OF KYRGYZ PM SHUFFLE

REF: A. 06 BISHKEK 1692

[1](#)B. 06 BISHKEK 1750

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Classified By: Ambassador Marie L. Yovanovitch for Reasons 1.4 (b) and (d)

[1](#)1. (C) Summary: In response to President Bakiyev's January 26 nomination of a new prime ministerial candidate to replace him, Acting Prime Minister Felix Kulov "revoked" his name from the letter committing Kyrgyzstan to the HIPC initiative. The IMF is still hopeful that the agreement can be salvaged. However, an incoming prime minister is unlikely to embrace HIPC amidst the wave of national pride, scorn for IMF and World Bank programs, and, most importantly, the threat (to political insiders) that HIPC would increase transparency of economic assets, which culminated in Kulov's ouster. End summary.

Making a Withdrawal

[1](#)2. (C) In December, Prime Minister Felix Kulov, Minister of Finance Akylbek Japarov and Central Bank Governor Marat Alapaev authored a letter to the World Bank (WB) and International Monetary Fund (IMF) expressing Kyrgyzstan's intent to participate in the Heavily Indebted Poor Countries (HIPC) initiative. However, Kulov, in his current capacity as Acting Prime Minister, told the Ambassador and visiting SCA/CEN Office Director Pamela Spratlen January 24 that, if he failed to regain his permanent prime ministerial posting, he would notify the WB and IMF of his decision to "revoke" his signature from Kyrgyzstan's HIPC commitment letter. Following President Bakiyev's announcement January 26 of his selection of Acting Minister of Agriculture Azim Isabekov as

his next candidate for the prime ministerial post, Kulov's assistant called her IMF working level contact to be prepared to receive a letter from Kulov.

Kulov,s Rationale

13. (C) In his January 24 explanation to Embassy, Kulov said that he did not want to force another prime minister to implement the HIPC agreement. He reasoned that President Bakiyev would be burdened with this unpopular obligation, and felt it was his responsibility to "protect the president." According to subsequent media accounts, Kulov's letter to the World Bank and IMF expressed his belief that "a new prime minister should give his personal agreement with earlier developed triggers and undertake personal responsibility for those." Despite this step to insulate Bakiyev from HIPC, Kulov, according to the IMF source, is extremely "bitter" and feels "betrayed" as a result of developments over the past month.

IMF in State of Denial

14. (C) During a January 25 meeting, IMF Resident Representative James McHugh told Embassy that Kyrgyzstan, following Kulov's departure, could simply delay implementing the HIPC triggers and receiving debt relief until a later date. (Note: The World Bank resident representative has been on long-term leave and only returns to work January 29. End note.) McHugh reasoned in a subsequent conversation with the Ambassador that a new prime minister could submit a new letter in a couple of weeks to reinstate Kyrgyzstan's commitment and believed that all the paperwork could be put in order for the March 21 Washington review of Kyrgyzstan's

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HIPC package. However, as Kulov and Finance Minister Japarov were the only HIPC advocates within the government, it seems unlikely, in Embassy's view, that a new prime minister would associate himself immediately with such a controversial, and unpopular, initiative.

Sources of Discontent

15. (C) Jingoistic national pride, scorn for WB/IMF programs and the protection of insider economic and financial interests have all, as discussed reftels, been explanations for opposition to Kyrgyzstan's joining the HIPC initiative. Media reporting has focused on the negative association of Kyrgyzstan with previous, mostly African, recipients of HIPC initiative debt relief as well as discontent with the "HIPC" cachet. In a similar vein, State Secretary Adaham Madumarov told the Ambassador January 25 that "Kyrgyzstan can deal with its problems without this program. We would rather be poor, but have pride."

16. (C) Senior government officials also justify their disapproval of HIPC by associating WB/IMF programs with failure, the previous Akayev regime and plans to subjugate Kyrgyzstan. Madumarov, in his extended attack on HIPC, said "the IMF and WB have been deceiving us for all these years by setting unrealistic conditions." "Following their advice," he added, "we bankrupted 29 large industrial enterprises and mines, resulting in the loss of thousands of jobs. They want us to remain dependent and a source of raw materials." The European Bank for Reconstruction and Development's (EBRD) Dan Berg (Amcit, please protect) advised Embassy January 25 that many Kyrgyz associate the collapse of (unsustainable) Soviet-era health, educational and social welfare programs with the introduction of World Bank and IMF initiatives.

17. (C) In an earlier January 23 conversation with the Ambassador, First Deputy Prime Minister Daniyar Usenov outlined a more nuanced opposition to HIPC. He said "we

agreed with the IMF on 25 out of 27 positions, but I will be opposed to the HIPC program unless they agree we can't rapidly raise energy tariffs and that we can manage Centerra stock ourselves." (Note: The Kyrgyz government owns a lucrative share of Centerra stock, the Canadian company which has a subsidiary operating Kyrgyzstan's Kumtor gold mine. End note.) However, Usenov presaged Madumarov's attack by noting that "the World Bank and IMF allowed Akayev to do anything, and as a result we should not have to owe them two billion dollars."

Critical Voices Express Other Reasons

18. (C) In a conversation with several Kyrgyz economic and financial observers January 25 at the Ambassador's residence, the IMF's McHugh recounted how his outreach to NGO representatives opposed to HIPC revealed no disagreements with HIPC's goals, only stringent opposition to the Kulov-led government. After listening to McHugh's description of these meetings, former Central Bank Governor Ulan Sarbanov suggested that "HIPC is dangerous to this country, its crooks because with HIPC the international community would have a right to ask questions." As a result, he reasoned, these individuals would fund any opposition to HIPC.

19. (C) Sarbanov claimed that the temptation of Iranian, Chinese and Middle Eastern loans and capital caused leading government politicians to oppose HIPC. According to Sarbanov, offers of easy capital from these countries are conditioned on Kyrgyzstan distancing itself from western

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institutions. In addition, the EBRD's Berg observed that Chinese requests for sovereign debt guarantees are impossible when coupled with restraints on Kyrgyzstan's macroeconomic fundamentals under HIPC.

The View from the Opposition

10. (C) In a January 25 meeting, MP Temir Sariyev provided two reasons for his opposition to the HIPC initiative. First, Sariyev argued, debt relief under HIPC would allow the Kyrgyz government to avoid real economic and structural reforms. Without HIPC, Kyrgyzstan would be required to service its debt payments, and the search for funds would force the government to bring economic activity out of the shadows and to improve tax and customs collection. Second, Sariyev said, HIPC imposed the wrong set of conditions and triggers. Why impose energy tariff increases, which would create immediate hardship for the poor, he asked, rather than tackle losses and non-payments. In addition, Sariyev said that any HIPC-associated privatizations or tenders would not be transparent, pointing to the Jerooy gold deposit and MegaCom's telephone license as recent examples of state interests that were "sold" for free. Sariyev said that what was missing from the HIPC triggers was a serious effort to reform Customs, introduction of automated systems at the Treasury and a requirement to adopt a Budget Code.

The Next Steps?

11. (C) With the likely demise of HIPC, Kyrgyzstan must continue to allocate roughly \$20 million annually to service its World Bank and IMF obligations. While HIPC opponents have uniformly agreed that Kyrgyzstan is capable of handling its debt burden, plans have been short on specifics. Ironically, the IMF's McHugh says the recent uptick in macroeconomic indicators may provide Kyrgyzstan with the short-term latitude needed to service its debt obligations. However, significant cuts in its debt burden will only result from a negotiated arrangement with creditors such as the World Bank and IMF. Embassy will continue to monitor developments.

Comment

¶12. (C) Kulov's advocacy of the HIPC initiative was one of the reasons for his ouster from the prime ministerial post. HIPC threatened to wrest control of lucrative state resources in the energy and mining sectors from political insiders. With President Bakiyev remaining publicly aloof and his two closest advisors, Usenov and Madumarov, prominently criticizing HIPC, Kulov took the blame for the unpopular HIPC accession agreement and was extremely vulnerable. It is hard to imagine that a new prime minister will provide the international financial institutions with the kind of commitment on HIPC they desire)- especially if the pundits are correct that the next prime minister will be a technocrat who takes orders. Minister of Finance Japarov is a likely casualty. A rumored replacement for Japarov, Parliament's Budget and Finance Committee Chairman Keldibekov, heavily criticized the HIPC initiative and publicly lambasted the Central Bank's Alapaev. If Japarov departs his post, and Alapaev is sufficiently cowed, the chances of the incoming prime minister advocating participation in the HIPC initiative decrease significantly.

YOVANOVITCH